

August 2, 2019

MEMORANDUM

To: Seattle City Councilmembers
From: Calvin Chow, Council Central Staff
Subject: CB 119602 – SDOT proposal to further design on the Center City Streetcar

At the July 30, 2019 Sustainability and Transportation Committee meeting, the Seattle Department of Transportation (SDOT) presented a [proposal](#) to authorize \$9 million for additional design work on the Center City Streetcar. The proposed legislation (CB [119602](#)) will be heard at the August 6, 2019 committee meeting for a possible vote. During the July 30 committee discussion, Councilmember O'Brien requested that Central Staff prepare a summary of the Center City Streetcar project to assist Council in consideration of the proposed legislation.

Center City Streetcar

The Center City Streetcar CIP project was first established in the 2014-2019 Adopted CIP. The project would connect the existing South Lake Union and First Hill streetcar lines by constructing new trackway along 1st Avenue and Stewart Street to allow for consolidated streetcar operations. Figure 1 shows the Center City Streetcar alignment in light blue.¹ The project also includes procurement of up to 10 additional streetcar vehicles to support a new operations plan for the connected streetcar network.

In 2017, SDOT signed a vehicle procurement contract, initiated early utility relocation work along 1st Avenue in Pioneer Square, and began soliciting construction bids for the project. The resulting construction bids were significantly higher than anticipated, and media [reports](#) raised questions about funding shortfalls for operating the streetcar system.

Figure 1: Center City Streetcar Alignment



¹ Figure 1 also shows the Broadway Streetcar project as a future \$25 million extension of the streetcar network along Broadway in Capitol Hill. The project did not have secured funding and was removed from the 2019-2024 Adopted CIP.

In March 2018, the Mayor issued a stop work order and initiated an [independent review](#) of the project. The review identified additional capital and operating costs that were not anticipated in the project budget. A significant issue was the vehicle procurement specifications, which called for longer and heavier streetcar vehicles than the vehicles currently in operation.

In February 2019, SDOT presented an updated [cost estimate](#) to Council based on findings of the independent review. At that time, SDOT identified a total project construction cost (including utility costs) of \$285.8 million, with an identified funding gap of \$87.9 million. In addition, SDOT projected an on-going operating subsidy of \$18.1 million for operating the entire streetcar network with the Center City Streetcar.

The \$9 million in the proposed legislation would fund additional design and enable SDOT to provide a new baseline cost and schedule for the project. The additional design work would address issues arising from the independent review, include platform and track modifications, maintenance facility design, and bridge and roadway structure engineering to accommodate the new vehicles. As part of this work, SDOT would also conduct a risk-assessment, conduct value-engineering on the project, reassess its procurement strategy, and evaluate opportunities to address areaway deficiencies along the route. However, the Executive does not have a complete funding proposal for Center City Streetcar construction or for on-going operations at this time.

Ridership

The Center City Streetcar would connect the existing South Lake Union and First Hill streetcar lines through Downtown Seattle.² The consolidated streetcar system would connect Center City neighborhoods and provide an additional connection to regional transit and ferry systems.

In 2018, SDOT recalibrated ridership estimates for the no-build and build scenarios using the Federal Transit Administration's (FTA) [STOPS Model](#). The STOPS Model has been calibrated against 15 US metropolitan areas that have fixed-guideway systems. Using this model, SDOT projects a 230-percent increase in ridership from a consolidated system with the Center City Streetcar over the existing no-build scenario.

Table 1: Comparison of Streetcar Ridership (FTA STOPS Model)

	No Build: Stand-Alone South Lake Union and First Hill (projection for 2019)	Build: Center City Streetcar Consolidated System (projection for 2019)
Average Weekday Ridership	5,500	18,100
Projected Annual Ridership ³	1.73 million	5.7 million

Source: SDOT Seattle Streetcar Update, July 2019.

² SDOT's most recent Streetcar Operations Report stated that South Lake Union annual ridership was 513,523 and that First Hill annual ridership was 1,159,104 in 2018. This is a combined ridership of 1,672,627.

³ SDOT provided an annualization factor of 315 to calculate annual ridership from the average weekday ridership. The FTA STOPS model and the annualization factor do not account for special event trips, such as sporting events.

Projections for fare revenue are included in the Operational Costs section of this memo, below. It should be noted that an increase in ridership would not necessarily translate into a straight-line increase in fare revenue. Since the streetcar network is part of the regional-fare ORCA program, additional ridership associated with transfers would not generate full fares, and other considerations such as fare evasion would also impact revenue.

Capital Costs

The estimated cost of the Center City Streetcar project has risen since the original total cost estimate of \$143.2 million in 2015. The most recent cost estimate for the project (February 2019) is \$285.8 million. This represents a funding gap of \$87.9 million.

Table 2: Center City Connector Capital Costs by Department

	Estimated Total Cost	Funding Gap
SDOT	\$208.1 million	\$65.3 million
Seattle Public Utilities (SPU)	\$58.8 million	\$13.7 million
Seattle City Light (SCL)	\$18.9 million	\$8.9 million
Total	\$285.8 million	\$87.9 million

Source: SDOT Center City Connector Capital and Operating Cost Update, February 2019.

For the transportation portion of the project, the cost is currently estimated at \$208.1 million. The 2019 Adopted Budget assumed \$45 million of future SDOT funding (transportation bonds backed by commercial parking tax revenue), \$75 million from a Federal Transit Administration (FTA) Small Starts grant, and \$7.3 million from a Congestion Mitigation and Air Quality (CMAQ) grant. With these budgeted resources, SDOT currently projects a \$65.3 million transportation funding gap to complete the project. The Executive does not currently have a proposal to close this capital funding gap.

As of June 30, 2019, SDOT has expended \$44.7 million on the project.⁴ This spending includes \$12.9 million of project costs that are eligible for reimbursement through the Small Starts and CMAQ grants if the project is completed.⁵ If the project were to be terminated, these grant funds would be redirected to other projects by the granting agencies and would not be available to reimburse SDOT's past expenditures. To closeout the project, SDOT would have to allocate \$12.9 million through a future budget action to replace the foregone grant revenue. SDOT would also anticipate additional closeout costs to terminate the vehicle procurement contract. The cost to closeout this contract is unknown and would require further negotiations with the supplier.⁶

Terminating the project would make \$45 million of future bond capacity available for other transportation purposes. This assumes that the \$12.9 million of past project expenditures and

⁴ Source, Life-to-date costs spreadsheet from SDOT, August 2, 2019.

⁵ Council approved grant acceptance and appropriations for the Small Starts and CMAQ grant in July 2017 (Ordinance [125346](#)). SDOT spent the \$12.9 million using available fund balance in anticipation of the future grant revenue.

⁶ Prior to the stop work order on the Center City Streetcar, SDOT had paid a total of \$5.4 million on the vehicle procurement contract.

the to-be-determined costs related to the vehicle procurement contract could be addressed through other local funding sources (e.g., revenue from the sale of surplus property⁷ as contemplated in CB 119602).

For the utility portions of the project, the current cost estimate identified a funding gap of \$13.7 million for SPU and \$8.9 million for SCL. The utilities are responsible for covering utility relocation costs related to transportation project improvements in the right-of-way. To address the utility funding gap, the utilities would need to shift spending on other projects or propose rate increases as part of future budget proposals.

Operating Costs

SDOT's initial proposal for the Center City Streetcar assumed that no City subsidy would be required for continued operation of the consolidated streetcar network. However, the updated February 2019 cost estimate included higher operating costs and reduced external revenue, resulting in a required first year operating subsidy of \$18.1 million.

Table 3: Estimated Operating Costs, Revenue, and Subsidy for Consolidated Streetcar System

	Initial Proposal	February 2019 Estimate
Operating Cost	(\$16 million)	(\$27.7 million)
Capital Reserve	--	(\$0.6 million)
Farebox Revenue	\$9 million	\$8.5 million
Sponsorship Revenue	\$1 million	\$1.0 million
External/Other Revenue	\$7.1 million (assumed continuing Metro and Sound Transit contributions)	\$0.7 million (without continuing Metro or Sound Transit contributions)
Required City Subsidy	None	\$18.1 million

Source for January 2017 Estimate: SDOT written response to CM O'Brien, dated January 11, 2017.

Source for January 2019 Estimate: SDOT Center City Connector Capital and Operating Cost Update, February 2019.

The February 2019 estimate's increased operating costs are in line with projections from King County Metro (Metro), who is the contracted operator of the existing streetcar lines and the anticipated operator of the Center City Streetcar. The updated cost reflects SDOT's and Metro's efforts to reconcile past bills for streetcar operations.⁸

The lowered projections for external revenue recognized that the existing operational support from Metro (\$1.5 million per year) for the South Lake Union streetcar expires at the end of 2019, and the support from Sound Transit (\$5 million per year) for the First Hill streetcar expires at the end of 2023. SDOT reports that King County may consider extending support for

⁷ CB 119602 anticipates \$9 million of property sale proceeds from the Mercer Megablock to fund SDOT's proposed design work. The Mercer Megablock sale is expected to generate additional transportation revenues beyond the proposed \$9 million, which have not yet been allocated in the 2020 Endorsed Budget and could be used to closeout the Center City Streetcar project. The Executive has also proposed using proceeds from the Mercer Megablock sale to pay back the South Lake Union operating loan.

⁸ The 2019 Adopted Budget included \$9.1 million to reconcile accounts for the 2017, 2018, and 2019 operations of the South Lake Union and First Hill streetcar lines.

the South Lake Union streetcar as part of the next five-year operating agreement for the existing streetcar system, currently in negotiations.

It is important to note that the existing South Lake Union and First Hill streetcar lines will require on-going City subsidy, whether-or-not the Center City Streetcar is built. As a no-build scenario, the February 2019 estimate projected a required City subsidy of \$12.8 million in 2024.

Table 4: Comparison of Streetcar Operating Expenses

	No Build: Stand-Alone South Lake Union and First Hill (Estimate for 2024 Operations)	Build: Center City Streetcar Consolidated System (Estimate for 1 st Year/2026 Operations)
Operating Cost	(\$16.5 million)	(\$27.7 million)
Capital Reserve	(\$0.6 million)	(\$0.6 million)
Farebox Revenue	\$3.3 million	\$8.5 million
Sponsorship Revenue	\$0.4 million	\$1.0 million
External/Other Revenue	\$0.7 million (assumes no continuing Metro or Sound Transit contributions)	\$0.7 million (assumes no continuing Metro or Sound Transit contributions)
Required City Subsidy	\$12.8 million	\$18.1 million

Source: SDOT Center City Connector Capital and Operating Cost Update, February 2019.

While the build scenario represents a \$5.2 million increase in farebox revenue over the no-build scenario, the build scenario would still require an additional \$5.3 million of City subsidy due to the increased operational cost. Given the anticipated increase in ridership with the Center City Streetcar (a 230-percent increase over the no-build scenario), the consolidated system would represent an increase in productivity per rider despite the increase in required City subsidy.

The 2019 Adopted Budget included \$4 million of annual support for streetcar operations. The Executive does not currently have a funding proposal to make up the difference for the projected escalation of the required City subsidy for long-term operations of the existing streetcar lines or the consolidated system with the Center City Streetcar.

Proposed Legislation (CB 119602)

SDOT is requesting \$9 million of appropriations to conduct additional design and engineering on the Center City Streetcar. The additional work will enable SDOT to provide a new baseline cost and schedule for the project.

The proposed \$9 million for design would be funded with transportation-related revenues⁹ from the future sale of the 800/816 Mercer property (sometimes referred to colloquially as the “Mercer Megablock”). The Mercer Megablock sale is expected to be finalized by the end of 2020. To make funds available to the Center City Streetcar project in advance of the property sale, the proposed legislation would authorize an interfund loan of \$9 million from the

⁹ A portion of the Mercer Megablock was purchased with gas-tax revenues. A proportional amount of the property proceeds may only be spent for transportation-related purposes. The design activities proposed by SDOT would be an eligible use of these funds.

Information Technology Fund through December 31, 2020. The Information Technology Fund has sufficient funds to support the loan and would be paid interest consistent with the City's financial policies.

SDOT currently has two outstanding interfund loans related to the South Lake Union Streetcar's construction and startup operations in 2007. The construction interfund loan has approximately \$4.5 million outstanding, and SDOT began a \$300,000 per year repayment plan in the 2017 Adopted Budget, utilizing commercial parking tax revenue. The operating interfund loan has approximately \$3.6 million outstanding, and SDOT intends to retire the debt with future property proceeds (e.g., additional Mercer Megablock proceeds).

If Council does not approve CB 119602, the \$9 million of future Mercer Megablock proceeds would be available to fund other transportation priorities, which could include defraying costs to terminate the Center City Streetcar project. SDOT anticipates that there will be additional transportation-related revenue from the 601 Dexter (also known as "Copiers NW") property sale beyond the \$9 million which are not currently programmed in the 2020 Endorsed Budget.

The 2019 Adopted Budget included \$500,000 for SDOT to continue work on the Center City Streetcar while the project was on hold. SDOT has expended available appropriations for the project, aside from utility funds¹⁰ which cannot be used to fund the proposed design activities. The 2019 Adopted Budget also included a spending proviso prohibiting construction of the Center City Streetcar until authorized by future ordinance.

Council Considerations

- Council may want clarity on the Executive's timeline for proposing a funding plan for Center City Streetcar construction and operations.
- Council may want a detailed project timeline and specific deliverables associated with the proposed \$9 million of spending.
- Council may want to redirect the proposed \$9 million of Mercer Megablock property proceeds towards other transportation priorities and discontinue work on the Center City Streetcar.

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¹⁰ The project has \$11 million of 2019 appropriations related to SCL and SPU revenue sources. These utility resources could not be used to fund the design activities proposed by SDOT.